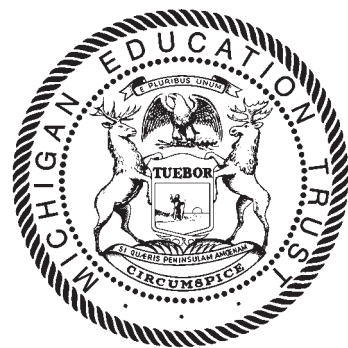


# ANNUAL REPORT 2000–2001

## *Plan D*



For additional copies, please  
contact the MET office at:

1-800-MET-4-KID  
(1-800-638-4543)

(517) 335-4767

[www.michigan.gov/treasury](http://www.michigan.gov/treasury)



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JOHN ENGLER  
GOVERNOR

DOUGLAS B. ROBERTS  
STATE TREASURER

March 2002

Dear MET Participants:

We are pleased to present the fiscal year 2000-01 annual report for the Michigan Education Trust (MET). The actuarial report prepared by PricewaterhouseCoopers L.L.P. shows the MET fund for Plan D contracts was actuarially sound and had a reserve of approximately \$3,657,875 as of September 30, 2001.

The Economic Growth and Tax Relief Reconciliation Act of 2001 was passed by the U.S. Congress effective January 1, 2002. This Act provides full tax exemption, therefore, MET will discontinue reporting taxable income to the Internal Revenue Service (IRS) on behalf of MET students or refund designees if benefits are used to pay for qualified higher education expenses. Other enhancements of the Act are outlined in the Annual Report.

If you have any questions or comments, please contact the MET office at (517) 335-4767 or (800) 638-4543 outside the greater Lansing area.

Sincerely,

A handwritten signature in black ink, appearing to be "DB Roberts", written over a horizontal line.

Douglas B. Roberts  
MET Chairman  
State Treasurer

A handwritten signature in black ink, appearing to be "Robin R. Lott-McMillan", written in a cursive style.

Robin R. Lott-McMillan  
Executive Director

## MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the MET program. They are responsible for policy development, investment initiatives, program development and implementation. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. By statute, the State Treasurer, Douglas B. Roberts, serves as Chairman. Robin Lott-McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.



Board members from left to right: Douglas B. Roberts, MET Chairman, *State Treasurer*; Michael Crandall, President, *Siegfried, Crandall, Vos & Lewis, P.C.*; Marilyn (Marsi) Liddell, President, *Glen Oaks Community College*; Thomas P. Sullivan, President, *Cleary College*; Mary E. Agar, School teacher, *Saint Monica School*; William A. Sederburg, President, *Ferris State University*; Dawn L. Phillips-Hertz, MET Vice President, Attorney-at-Law, *Butzel Long*; Richard M. Gabrys, MET President, Managing Partner, *Deloitte & Touche (Detroit Region)*; Taylor Segue, III, Attorney-at-Law, *Butzel Long*.

# THE MET PROGRAM

Michigan Education Trust (MET) is Michigan's Section 529 prepaid tuition program established by Public Act 316 of 1986. MET is administratively located within the Department of Treasury, Bureau of Student Financial Assistance. A nine-member Board of Directors and a twelve-member staff administer the MET program.

MET allows parents, grandparents, business and others, to make contributions, at the current rate of tuition, for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

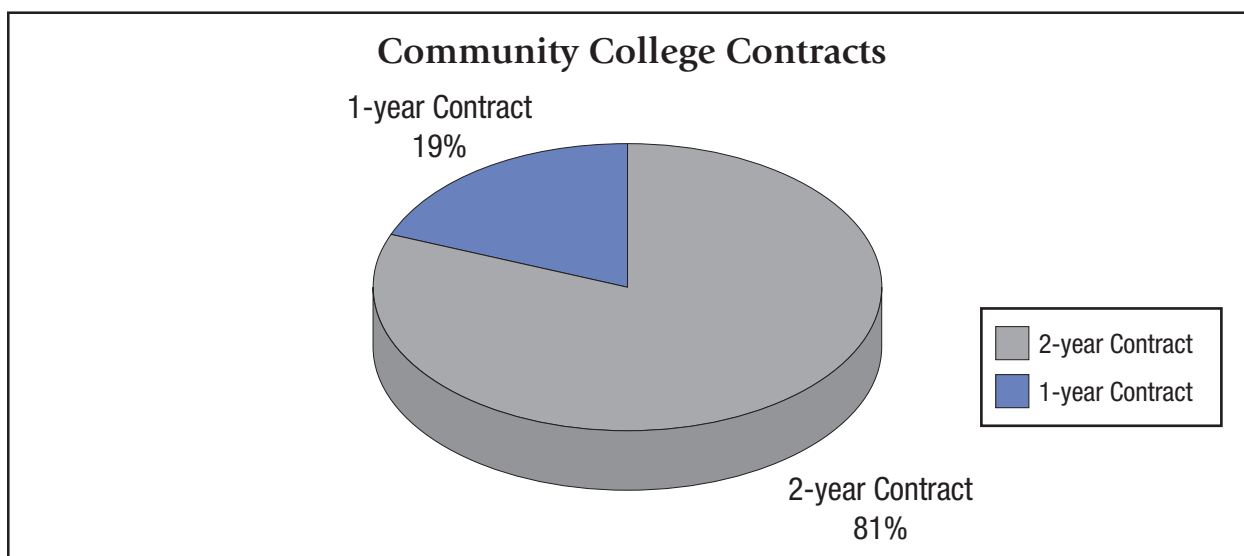
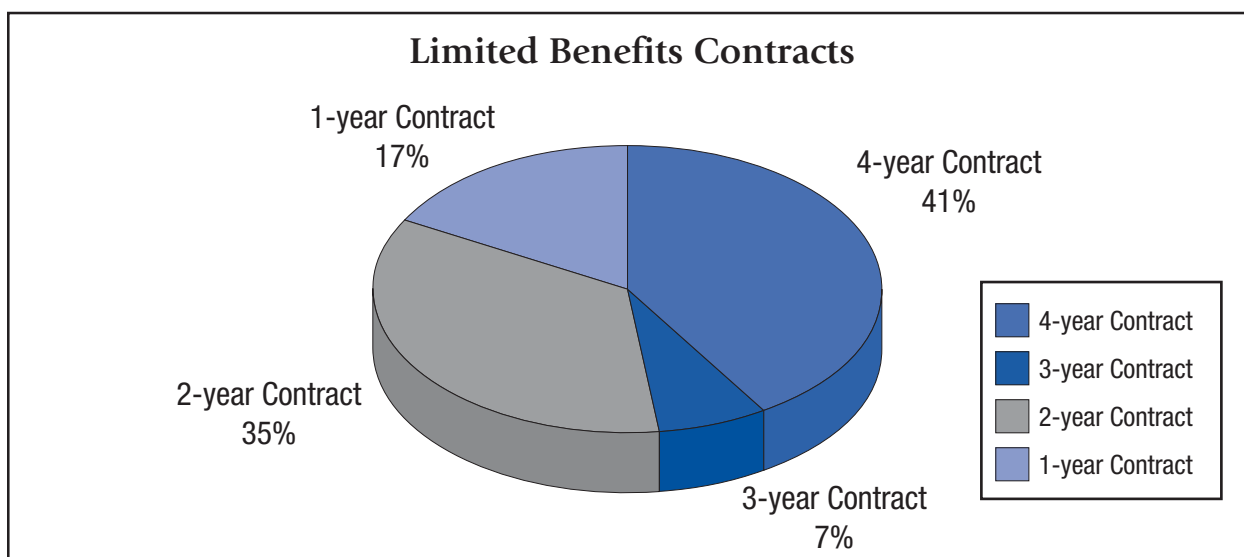
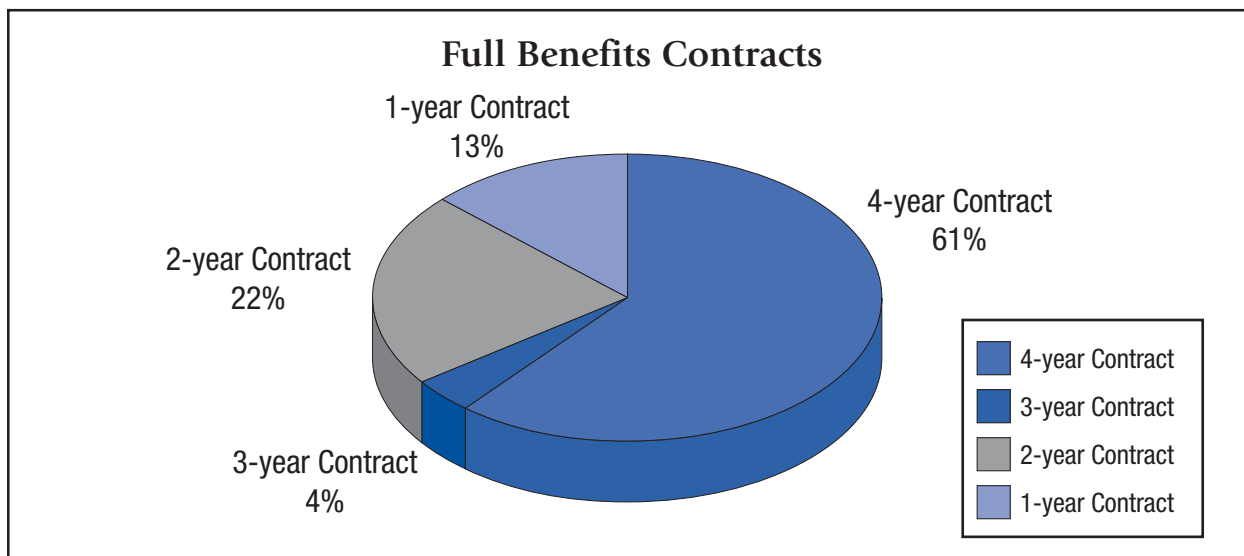
Since the program's inception, MET staff have provided quality public service to participants, by furnishing efficient and timely information on program development and changes.

## NEW TAX ENHANCEMENTS

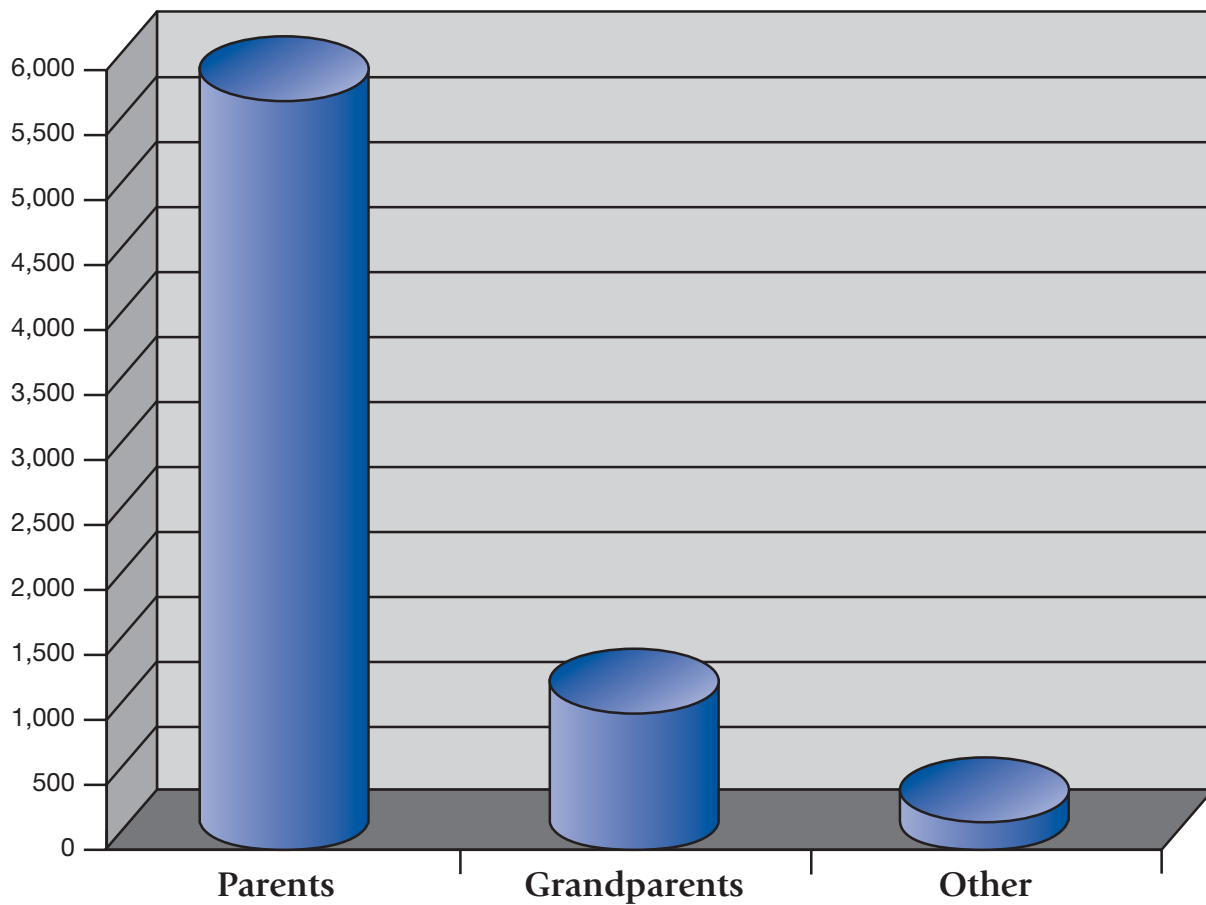
The Economic Growth and Tax Relief Reconciliation Act of 2001 allows tax-free qualified higher education distributions from Michigan Education Trust as of January 1, 2002. Education savings incentives included in the Act make Section 529 prepaid and savings plans an excellent way to save for college. New enhancements pertaining to MET include:

- ❖ Tax Free Withdrawals - Beginning January 1, 2002, earnings on any distributions used to pay for a beneficiary's qualified higher education expenses will be exempt from state and federal income tax.
- ❖ Coordination with Education IRAs - Starting January 1, 2002, contributions can be made to MET and an Education IRA in the same year without penalty. The maximum allowed for an Education IRA savings increased to \$2000 annually.
- ❖ Michigan Education Trust can accept rollovers from other Section 529 programs for the same beneficiary. This rollover option will allow more opportunity for MET participants.
- ❖ Penalty on Non-Qualified Withdrawals - Earnings on distributions not used to pay for a beneficiary's qualified higher education expenses will be subject to a 10% federal excise tax.
- ❖ Definition of "Immediate Family". The definition of "immediate family" will soon be amended to include cousins of the first degree of beneficiaries for MET contracts issued after the year 1996.
- ❖ Sunset Provision - These new federal enhancements are subject to sunset provisions, which will expire on December 31, 2010. Congress may or may not extend these new benefits beyond this date.

*Years Purchased by Type of Contract  
Under Plan D*



*Relationship of Contract Purchasers  
Under Plan D*





December 20, 2001

Dr. Douglas Roberts  
Chairman of the Board of Directors of the  
Michigan Education Trust  
Department of Treasury  
P. O. Box 30198  
Lansing, Michigan 48909

PricewaterhouseCoopers LLP  
Suite 200  
40950 Woodward Ave.  
Bloomfield Hills MI 48304-2260  
Telephone (313) 394 3942  
Direct fax (313) 394-3456

Dear Dr. Roberts:

We have performed an actuarial valuation of Plan D ("MET II") of the Michigan Education Trust ("MET II" or "the Trust"), at the request of the Trust as of September 30, 2001. The valuation is based on data furnished by MET regarding the contracts submitted during the 1995, 1997, 1998, 1999 and 2000 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999 and 2000 enrollments.

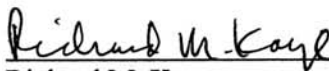
We have determined that as of September 30, 2001, based on the aforementioned data and assumptions, the market value of Plan D assets exceeded the actuarial present value of Plan D benefits by \$3,657,875.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,



John T. Devereux, ACAS, MAAA  
Principal Consultant, PricewaterhouseCoopers LLP



Richard M. Kaye  
Fellow of the Society of Actuaries, CPA  
Richard M. Kaye & Associates  
Consultant to PricewaterhouseCoopers LLP





**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Report of Independent Auditors

Dr. Douglas B. Roberts, Chairman  
Michigan Education Trust Board of Directors

Mr. Thomas H. McTavish, CPA  
Office of the Auditor General

We have audited the accompanying statements of net assets of the Michigan Education Trust (MET) Plan D, Department of Treasury, as of September 30, 2001 and 2000, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Michigan Education Trust and the management of the Department of Treasury. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, MET adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of October 1, 1999.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D, as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2001 on our consideration of the Michigan Education Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

*Andrews Hooper & Pavlik P.L.C.*

Okemos, Michigan  
December 20, 2001

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • [www.ahpplc.com](http://www.ahpplc.com)

***Management's Discussion and Analysis***  
***Michigan Education Trust***  
***Plan D***

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET), Plan D, for the year ended September 30, 2001. MET is an Internal Revenue Code (IRC) Section 529 prepaid tuition program and is a component unit of the State of Michigan, administratively located within the Michigan Department of Treasury. Management is responsible for the financial statements, footnotes and this discussion.

**Using the Financial Report**

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

- The new reporting standards require a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.
- The financial statements differ in form compared to prior years' financial statements.

This financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements in the new format and notes to financial statements.

The financial statements are interrelated and represent the financial status of MET.

The Balance Sheet is now referred to as the Statement of Net Assets which includes the assets, liabilities and net assets, at the end of the year.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating and investing activities.

**Analysis of Financial Activities**

The MET Board of Directors approves a budget and the investment portfolio allocation. The MET portfolio for Plan D may be invested up to 30% in equities. The actuary assumes one percent of the MET assets will go toward administrative expenses.

Overall MET Plan D experienced an increase in new contract enrollment which increases the asset value and future liabilities.

### **Comparison of Current Year Results and Prior Year**

Condensed Statements of Net Assets as of September 30, (in thousands)

	2001	2000
Current assets	\$ 31,999	\$ 8,325
Noncurrent assets	96,033	79,232
Total assets	<u>\$ 128,032</u>	<u>\$ 87,557</u>
Current liabilities	\$ 1,741	\$ 835
Long-term liabilities	122,633	80,117
Total liabilities	<u>124,374</u>	<u>80,952</u>
Net assets-restricted	3,658	6,605
Total liabilities and net assets	<u>\$ 128,032</u>	<u>\$ 87,557</u>

Overall the net assets decreased by approximately \$2.95 million.

Cash and cash equivalents include short-term investments. This line item increased as of September 30, 2001, because some investments matured and the proceeds were not immediately reinvested in the long-term portfolio due to the market volatility.

Tuition contracts receivable increased by \$13.34 million primarily due to an increase in monthly purchase contracts received during fiscal year 2001.

The MET Plan D target portfolio is 70% invested in short-term investments, U.S. government securities and corporate bonds and 30% invested in equities.

Overall the total current assets increased primarily due to the increase in cash and cash equivalents. Noncurrent assets increased to reflect a 73% increase in new contract amounts received in fiscal year 2001 which included lump-sum and monthly purchase contracts.

Amounts due to MET Program (Plans B & C) increased due to an increase in administrative and tuition expenses. This includes increased costs in marketing, printing and distribution of program materials to implement the enhanced one step, ten month enrollment period.

The tuition benefits payable increase reflects the changes in the actuarial present value of the future tuition obligation and increases for new contracts issued. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. As a result, total current liabilities increased overall in fiscal year 2001.

Long-term tuition benefits payable increased to reflect the increase in lump-sum and monthly purchase contracts received.

Condensed Statements of Revenues, Expenses and Changes in Net Assets for Fiscal Year Ended September 30, (in thousands)

	2001	2000
Operating Revenues	<u>\$ 2,565</u>	<u>\$ 5,012</u>
Operating Expenses		
Salaries and other administrative expenses	558	386
Tuition benefit expense	<u>4,954</u>	<u>116</u>
Total operating expenses	<u>5,512</u>	<u>502</u>
Operating income (loss)	<u>\$ (2,947)</u>	<u>\$ 4,510</u>
Increase (decrease) in net assets	\$ (2,947)	\$ 4,510
Net assets - beginning of fiscal year	<u>6,605</u>	<u>2,095</u>
Net assets - end of fiscal year	<u>\$ 3,658</u>	<u>\$ 6,605</u>

Net realized and unrealized appreciation in fair value of investments decreased primarily because of a decrease in market value of investments in equities during the year and contributed to an overall decrease of operating revenues in 2001.

Salaries and other administrative expenses increased. This increase is attributed to the increase in cost of marketing, printing and distribution of program materials.

Tuition benefit expenses increased due to the actuarially determined tuition benefit obligation.

Condensed Statements of Cash Flows for Fiscal Year Ending September 30, (in thousands)

	2001	2000
Cash provided (used) by:		
Operating activities	\$ 26,856	\$ 15,231
Investing activities	<u>(6,315)</u>	<u>(18,461)</u>
Net increase (decrease) in cash	20,541	(3,230)
Cash - beginning of the year	<u>3,853</u>	<u>7,083</u>
Cash - end of the year	<u>\$ 24,394</u>	<u>\$ 3,853</u>

Contract receipts increased and include new lump sum contracts and contract processing fees received. Contract payments increased to reflect more students using contracts to attend college. Net cash provided by operating activities reflects an overall increase due to these items for fiscal year 2001.

Investment security purchases exceeded the proceeds from sales and maturities of investment securities by \$6.3 million to arrive at the net use of cash by investing activities for fiscal year 2001.

The assets for Plan D contracts are invested up to 30% in equities, which provides some exposure to the stock market. The stock market was very volatile during the year, which negatively impacted Plan D. However, open enrollment for the year resulted in a 73% increase in prepaid tuition amounts received, as compared to amounts received in the prior fiscal year. Prepaid tuition receipts translate to an increase in the tuition liability, however, the actuarial soundness of MET is based in part on new contracts being purchased.

### **Factors Impacting Future Periods**

It is expected that Michigan public universities will adopt higher tuition increases next year if state appropriated funds decrease.

MET enrollment for 2002 will be held January 1, 2002 through August 31, 2002. New enrollments will increase cash, future tuition benefits payable and the asset base of MET Plan D.

There are no other known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations.

**MICHIGAN EDUCATION TRUST PLAN D**  
**Department of Treasury**  
**Statements of Net Assets**  
**As of September 30**

ASSETS	<u>2001</u>	<u>2000</u>
Current Assets:		
Cash and cash equivalents	\$ 24,393,562	\$ 3,852,495
Tuition contracts receivable	7,316,299	4,184,945
Interest and dividends receivable	<u>288,993</u>	<u>287,416</u>
Total Current Assets	31,998,854	8,324,856
Noncurrent Assets:		
Investments	74,042,521	67,449,095
Tuition contracts receivable	<u>21,990,859</u>	<u>11,783,304</u>
Total Assets	<u>\$ 128,032,234</u>	<u>\$87,557,255</u>
LIABILITIES		
Current Liabilities:		
Amounts due to MET Program (Plans B & C)	\$ 741,551	\$ 378,902
Tuition benefits payable	<u>1,000,000</u>	<u>456,063</u>
Total Current Liabilities	1,741,551	834,965
Long-Term Liabilities:		
Tuition benefits payable	<u>122,632,808</u>	<u>80,117,048</u>
Total Liabilities	124,374,359	80,952,013
NET ASSETS		
Net Assets - restricted	<u>3,657,875</u>	<u>6,605,242</u>
Total Liabilities and Net Assets	<u>\$ 128,032,234</u>	<u>\$87,557,255</u>

The accompanying notes are an integral part of the financial statements.



**MICHIGAN EDUCATION TRUST PLAN D**  
**Department of Treasury**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Fiscal Year Ended September 30**

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES		
Interest and dividend income	\$ 2,104,341	\$ 1,350,301
Net realized and unrealized appreciation in fair value of investments	278,411	3,602,582
Other miscellaneous income	182,290	58,900
	<u>2,565,042</u>	<u>5,011,783</u>
Total Operating Revenues		
OPERATING EXPENSES		
Salaries and other administrative expenses	558,626	386,001
Tuition benefit expenses	4,953,783	115,933
	<u>5,512,409</u>	<u>501,934</u>
Total Operating Expenses		
Operating Income (Loss)	<u>(2,947,367)</u>	<u>4,509,849</u>
Increase (Decrease) in Net Assets	(2,947,367)	4,509,849
Net Assets - Beginning of Fiscal Year	<u>6,605,242</u>	<u>2,095,393</u>
Net Assets - End of Fiscal Year	<u><u>\$ 3,657,875</u></u>	<u><u>\$ 6,605,242</u></u>

The accompanying notes are an integral part of the financial statements.

**MICHIGAN EDUCATION TRUST PLAN D**  
**Department of Treasury**  
**Statements of Cash Flows**  
**Fiscal Year Ended September 30**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b><u>2001</u></b>	<b><u>2000</u></b>
Contract receipts	\$ 25,391,828	\$ 14,686,202
Interest and dividends received	2,102,764	1,129,407
Contract payments	(624,823)	(386,326)
Administrative and other expenses paid	(195,977)	(273,006)
Application and other fees collected	182,290	74,340
Net Cash Provided from Operating Activities	<u>26,856,082</u>	<u>15,230,617</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(26,324,249)	(34,545,127)
Proceeds from sale and maturities of investment securities	<u>20,009,234</u>	<u>16,084,015</u>
 Net Cash used by Investing Activities	<u>(6,315,015)</u>	<u>(18,461,112)</u>
 Net Cash Provided (Used) - All Activities	20,541,067	(3,230,495)
Cash and Cash Equivalents at Beginning of Year	<u>3,852,495</u>	<u>7,082,990</u>
 Cash and Cash Equivalents at End of Year	<u><u>\$ 24,393,562</u></u>	<u><u>\$ 3,852,495</u></u>
 <b>Reconciliation of Operating Income (loss) to net cash provided from operating activities</b>		
Operating income (loss)	\$ (2,947,367)	\$ 4,509,849
Adjustments to reconcile operating income (loss) to net cash provided from operating activities:		
Unrealized and realized gains	(278,411)	(3,602,582)
Changes in assets and liabilities:		
Tuition contracts receivable	(13,338,909)	(3,950,202)
Interest and dividends receivable	(1,577)	(220,894)
Other assets	-	15,440
Amounts due to MET Program (Plans B & C)	362,649	112,995
Tuition benefit payable	43,059,697	18,366,011
	<u><u>\$ 26,856,082</u></u>	<u><u>\$ 15,230,617</u></u>

The accompanying notes are an integral part of the financial statements.

**MICHIGAN EDUCATION TRUST (Plan D)**  
**DEPARTMENT OF TREASURY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

**NOTE 1 – BASIS OF PRESENTATION AND REPORTING ENTITY**

**A. Basis of Presentation**

The financial statements of the Michigan Education Trust (MET) have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement is effective for MET's year ended September 30, 2001 since MET, as a component unit of the State of Michigan, is required to adopt the Statement in the year the State of Michigan is adopting it. MET will follow the "business-type" activities requirements of GASB Statement No. 34 rather than issuing fund-type financial statements and will have the following components of the financial statements:

- Management's discussion and analysis
- Basic financial statements including a statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows for MET (Plan D) as a whole
- Notes to the financial statements

The 2000 statement of cash flows has been restated using the direct method required by GASB Statement No. 34.

**B. Reporting Entity**

MET was created under Act 316 (the "Act") of the Michigan Public Acts of 1986 (Sections 390.1421-390.1444 of the Michigan Compiled Laws) to operate a prepaid college tuition program. MET is governed by a Board of Directors consisting of nine members including eight public members, appointed by the Governor with the advice and consent of the Senate, and one ex-officio member (the State Treasurer as chairperson). MET is administratively located within the Michigan Department of Treasury. The State Treasurer, as agent for MET, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan (the "State") and is reported as such in the State of Michigan Comprehensive Annual Financial Report.

The Act empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarial determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits and limited benefits and a community college contract. MET's property, income and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2001, there have been eight enrollment periods for MET. The 1988, 1989 and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999 and 2000 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers the Plan D enrollments. A separate financial report and actuarial valuation of Plans B and C enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

**MICHIGAN EDUCATION TRUST (Plan D)**  
**DEPARTMENT OF TREASURY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Measurement Focus and Basis of Accounting**

The financial statements of MET are prepared using the economic resources measurement focus and are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the materials, services, or benefits are received. Service fees and other fees and charges are recorded as income when earned, and the associated administrative expenses are recorded as incurred. Tuition benefit expense represents accretion of the tuition benefits obligation (see note 5).

As allowed by GASB Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and other Government Entities that Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

**B. Assets, Liabilities, and Net Assets**

Cash and Cash Equivalents: Cash reported on the balance sheet includes deposits with financial institutions, and cash equivalents such as short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Cash and Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. The Act authorizes MET's Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes.

Investments are carried at market value (see note 3).

The Act requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Tuition Contracts Receivable: The present value of the future installment contract payments is recorded as a current and noncurrent asset of MET. The discount rate applied to expected future cash flows to determine present value is 7.0%.

Liabilities: The actuarial present value (APV) of the future tuition obligation is recorded as a current and noncurrent liability of MET (see note 5).

Net Assets: MET's net assets represents the investment appreciation and the investment revenue in excess of the APV of the future tuition obligation and expenses (see note 5). Net assets are restricted due to the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is P.A. 316 of 1986. Section 17 of the act indicates that "the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in the act and shall not be loaned or otherwise transferred or used by the State for any purpose other than the purposes of this act."

**MICHIGAN EDUCATION TRUST (Plan D)**  
**DEPARTMENT OF TREASURY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

A. General Information:

The Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the credit risk associated with them.

Deposits: In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

Investments: In accordance with GASB Statement No. 3, investments are also classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities).

- B. Deposits: At year end, the carrying amount of MET's deposits for Plan D was \$905,802. The deposits were reflected in the accounts of the banks at \$905,802. The September 30, 2001 balances were covered by Federal depository insurance or collateral held with MET's agent in MET's name and accordingly classified in GASB credit risk category 1.

- C. Investments: The following table shows the carrying amounts and market values of investments for Plan D, by investment type and in total (in millions) at September 30, 2001:

<u>Investments</u>	<u>GASB Category</u>			<u>Not Categorized</u>	<u>Total Carrying Value</u>	<u>Market Value</u>
	<u>#1</u>	<u>#2</u>	<u>#3</u>			
Commercial Paper	\$ 23.5				\$ 23.5	\$ 23.5
Government Securities	44.2				44.2	44.2
Corporate Bonds & Notes	11.5				11.5	11.5
Mutual Funds				\$ 18.3	18.3	18.3
Total Investments	<u>\$79.2</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$ 18.3</u>	<u>97.5</u>	<u>\$97.5</u>
Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets					<u>23.5</u>	
Total Investments Per Statement of Net Assets					<u>\$74.0</u>	
<u>As Reported on Statement of Net Assets</u>						
Cash and cash equivalents					\$23.5	
Noncurrent investments					<u>74.0</u>	
Total Investments					<u>\$97.5</u>	

**MICHIGAN EDUCATION TRUST (Plan D)**  
**DEPARTMENT OF TREASURY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2001**

**NOTE 4 – TUITION CONTRACTS RECEIVABLE**

The following summarizes tuition contracts receivable for installment contracts as of September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Tuition Contracts Receivable	\$ 35,361,142	\$ 18,712,613
Present Value Discount	<u>6,053,984</u>	<u>2,744,364</u>
Net Tuition Contracts Receivable	<u>\$ 29,307,158</u>	<u>\$ 15,968,249</u>

**NOTE 5 - TUITION BENEFITS PAYABLE**

Presented below is the total tuition benefits obligation of MET. The standardized measurement is the APV of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts.

	<u>September 30, 2001</u>	<u>September 30, 2000</u>
Market Value of Net Assets excluding Tuition Benefits Obligation	\$127,290,683	\$87,178,353
Present value of future benefits payable and expenses, assuming the fund earns 7.0% (6.83% for 2000)	123,632,808	80,573,111
Net Assets in excess of Tuition Benefits Obligation	3,657,875	6,605,242
Net Assets as a Percentage of Tuition Benefits Obligation	103%	108%

The most important assumptions used in the actuarial valuations include the following:

The discount rate applied to expected future cash flows to determine present value is 7.0%. This discount rate approximates the investment yield over the lifetime of the present tuition benefit contracts.

Projected Tuition Increase is 5.71% compounded annually for the next five years and 7.30% for the balance of the period. The Board continued with a two-tier formula for adjusting the tuition increase assumption. The short-term increase assumption of 5.71% (5 years through 2007) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long-term tuition increase assumption of 7.30%.

Federal Income Tax - No tax effect.

Selection Against Trust (Bias) - MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuation for Plan D:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Tuition Increase	5.71%	5.81%	6.30%	6.86%	7.45%
Tuition Increase Long Term	7.30%	7.30%	7.30%	7.30%	7.30%
Present Value Discount Rate	7.00%	6.83%	6.83%	7.80%	7.65%



**MICHIGAN EDUCATION TRUST (Plan D)**  
**DEPARTMENT OF TREASURY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – LONG-TERM LIABILITIES**

The following summarizes the tuition benefit obligation payable as of and for the years ended September 30, 2001 and 2000:

	<u>Tuition Benefit Payable</u>
Balance at October 1, 1999	\$ 62,207,100
Expense provision	18,752,337
Payments	<u>386,326</u>
Balance at September 30, 2000	80,573,111
Expense provision	43,684,520
Payments	<u>624,823</u>
Balance at September 30, 2001	<u>\$ 123,632,808</u>

The amounts due within one year for the years ended September 30, 2001 and 2000 are \$1,000,000 and \$456,063 respectively. Actuarial assumptions described in Note 5 have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

**NOTE 7 - TAX STATUS**

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan, and thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions will no longer be subject to federal income tax, if used for qualified higher education expenses.

On August 20, 1996, the Small Business Job Protection Act of 1996 (the "1996 Tax Act") was signed into law which included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax, but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997 MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling which confirms that MET meets the requirements for exemption from federal income tax as a qualified state tuition program described in section 529 of the Code.

**NOTE 8 – RISK MANAGEMENT**

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses, portions of its employee insurance benefit and bonding programs, automobile liability, workers' compensation and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (Internal Service Funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.

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# MET QUOTES

**"Love MET. Best thing next to having her children"**

Mrs. Pamala L H Ross  
Sterling Heights, MI

**"MET staff most non-solicited 'happy people'"**

Ms. Dale Phillips

**"Most personable State office I interact with – efficient and courteous".**

Mr. Angus Miller  
Brighton, MI

**"Forward approach for saving for college"**

Dave Dillon  
Oxford, MI

**"Loves MET"**

Leslie A. Patrick  
Ashley, MI

**"Great Program"**

Lisa Johnson  
Saginaw, MI

**"MET office is the most helpful of all government offices ever!" "Loves MET"**

Dean Lacy  
Commerce, MI

**"What an easy way to invest in the future"  
"Never had a problem with tuition payments"  
"Recommend to grandparents who want to leave something of value to grandchildren"**

Thomas A. Barszczowski

**"Thank you for the timely and complete response. It's a rare pleasure to get such prompt attention."**

Rod Farver  
Brookfield, WI

**"MET is Best"**

Don Greka  
Rockford, MI

**"We appreciate having had the opportunity to participate in the MET program."**

Thomas P. Beresford  
Aurora, CO

**"A no brainer - It is the best buy!"**

Chuck Crowley  
Jenison, MI

**"Thank you so much for your time and patience in answering all my questions."**

Linda R. Herwick  
Milford, MI

**"Questions were answered very professionally and gave us good advice."**

Patricia H. Caswell  
Houghton Lake, MI

**"Your time and special attention was greatly appreciated." "MET office has been a joy to work with throughout the time our daughter attended college. Each time I talked with MET staff, I have been treated most professionally, and answers were provided quickly and with clarity." "It is refreshing to deal with such a competent, pleasant and service oriented group. Thanks for the insight and personal support. ...a valuable resource to residents of the State of Michigan."**

Brian LaBarre  
Ann Arbor, MI

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# REMINDER

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made. This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document, therefore, any changes to the contract must be made in writing to the MET office and mailed to the address listed below.

Michigan Department of Treasury, MET  
2775 (4-00), Formerly T-2022

## CHANGE OF ADDRESS

<b>Contract Number*</b>	
<b>Name</b>	
<b>E-mail Address</b>	
<b>New Address</b>	
<b>City and State</b>	<b>ZIP Code</b>
<b>Daytime Phone Number</b> (       )	

### THIS ADDRESS CHANGE IS APPLICABLE TO:

\_\_\_\_\_ Purchaser    \_\_\_\_\_ Beneficiary (student)    \_\_\_\_\_ Appointee

(Check all that apply)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**Mail to:**

**Michigan Education Trust  
P.O. Box 30198  
Lansing, Michigan 48909**

**\* If change of address applies to more than one beneficiary (student), please copy this form and submit a separate form for each beneficiary (student).**

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## ***MET STAFF***

Robin R. Lott-McMillan  
*Executive Director*

Joseph Asghodom  
*Finance Manager*

Dalynne M. Preston  
*Financial Analyst*

Linda Sanchez  
*Policy Analyst*

Sharon Gleason  
*Processing Specialist*

Jchon Patton  
*Accounting Assistant*

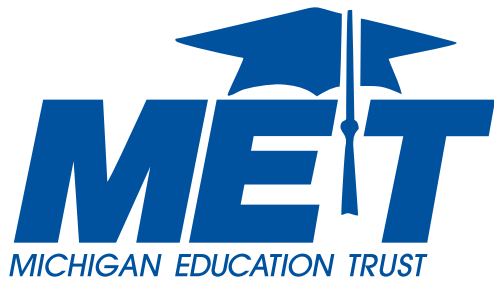
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*Executive Secretary*

Denise VanVleet  
*Secretary*

Sheila Cornfield  
*Communication Assistant*

Josephine Moore  
*Communication Assistant*

Deborah Sumner  
*Communication Assistant*



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Web: [www.michigan.gov/treasury](http://www.michigan.gov/treasury)

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